

# From thinking about the next normal to making it work: What to stop, start, and accelerate



What's next? That is the question everyone is asking. The future is not what we thought it would be only a few short months ago.

In a previous article, we discussed seven broad ideas that we thought would shape the global economy as it struggled to define the next normal. In this one, we set out seven actions that have come up repeatedly in our discussions with business leaders around the world. In each case, we discuss which attitudes or practices businesses should stop, which they should start, and which they should accelerate.

## 1. From 'sleeping at the office' to effective remote working

Stop assuming that the old ways will come back. In fact, this isn't much of a problem. Most executives we have spoken to have been pleased at how well the sudden increase in remote working has gone. At the same time, there is some nostalgia for the "good old days," circa January 2020, when it was easy to bump into people at the coffee room. Those days are gone. There is also the risk, however, that companies will rely too much on remote working.

In the United States, more than 70 percent of jobs can't be done offsite. Remote work isn't a panacea for today's workplace challenges, such as training, unemployment, and productivity loss.

Start thinking through how to organize work for a distributed workforce

Remote working is about more than giving people a laptop. Some of the rhythms of office life can't be recreated. But the norms associated with traditional work—for example, that once you left the office, the workday was basically done—are important. As one CEO told us, "It's not so much working from home; rather, it's really sleeping at the office."

For working from home to be sustainable, companies need to help their staff create those boundaries: the kind of interaction that used to take place in the hallway can be taken care of with a

quick phone call, not a videoconference. It may also help to set "office hours" for particular groups, share tips on how to track time, and announce that there is no expectation that emails will be answered after a certain hour.

Accelerate best practices around collaboration, flexibility, inclusion, and accountability  
Collaboration, flexibility, inclusion, and accountability are things organizations have been thinking about for years, with some progress. But the massive change associated with the coronavirus could and should accelerate changes that foster these values.

Office life is well defined. The conference room is in use, or it isn't. The boss sits here; the tech people have a burrow down the hall. And there are also useful informal actions. Networks can form spontaneously (albeit these can also comprise closed circuits, keeping people out), and there is on-the-spot accountability when supervisors can keep an eye from across the room. It's worth trying to build similar informal interactions. TED Conferences, the conference organizer and webcaster, has established virtual spaces so that while people are separate, they aren't alone. A software company, Zapier, sets up random video pairings so that people who can't bump into each other in the hallway might nonetheless get to know each other.

There is some evidence that data-based, at-a-distance personnel assessments bear a closer relation to employees' contributions than do traditional ones, which tend to favor visibility. Transitioning toward such systems could contribute to building a more diverse, more capable, and happier workforce. Remote working, for example, means no commuting, which can make work more accessible for people with disabilities; the flexibility associated with the practice can be particularly helpful for single parents and caregivers. Moreover, remote working means companies can draw on a much wider talent pool.

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### 2. From lines and silos to networks and teamwork

Stop relying on traditional organizational structures "We used to have all these meetings," a CEO recently told us. "There would be people from different functions, all defending their territory. We'd spend two hours together, and nothing got decided. Now, all of those have been cancelled—and things didn't fall apart." It was a revelation—and a common one. Instead, the company put together teams to deal with COVID-19-related problems. Operating with a defined mission, a sense of urgency, and only the necessary personnel at the table, people set aside the turf battles and moved quickly to solve problems, relying on expertise rather than rank.

Start locking in practices that speed up decision making and execution during the crisis The all-hands-on-deck ethos of a pandemic can't last. But there are ways to institutionalize what works—and the benefits can be substantial. During and after the 2008 financial crisis, companies that were in the top fifth in performance were about 20 percentage points ahead of their peers. Eight years later, their lead had grown to 150 percentage points. The lesson: those who move earlier, faster, and more decisively do best.

Accelerate the transition to agility We define "agility" as the ability to reconfigure strategy, structure, processes, people, and technology quickly toward value-creating and value-protecting opportunities. In a 2017 Aura Solution Company Limited survey, agile units performed significantly better

than those who weren't agile, but only a minority of organizations were actually performing agile transformations. Many more have been forced to do so because of the current crisis—and have seen positive results.

Agile companies are more decentralized and depend less on top-down, command-and-control decision making. They create agile teams, which are allowed to make most day-to-day decisions; senior leaders still make the big-bet ones that can make or break a company. Agile teams aren't out-of-control teams: accountability, in the form of tracking and measuring precisely stated outcomes, is as much a part of their responsibilities as flexibility is. The overarching idea is for the right people to be in position to make and execute decisions.

One principle is that the flatter decision-making structures many companies have adopted in crisis mode are faster and more flexible than traditional ones. Many routine decisions that used to go up the chain of command are being decided much lower in the hierarchy, to good effect. For example, a financial information company saw that its traditional sources were losing their value as COVID-19 deepened. It formed a small team to define company priorities—on a single sheet of paper—and come up with new kinds of data, which it shared more often with its clients. The story illustrates the new organization paradigm: empowerment and speed, even—or especially—when information is patchy.

Another is to think of ecosystems (that is, how all the parts fit together) rather than separate units.

Companies with healthy ecosystems of suppliers, partners, vendors, and committed customers can find ways to work together during and after times of crisis because those are relationships built on trust, not only transactions.

Finally, agility is just a word if it isn't grounded in the discipline of data. Companies need to create or accelerate their analytics capabilities to provide the basis for answers—and, perhaps as important, allow them to ask the right questions. This also requires reskilling employees to take advantage of those capabilities: an organization that is always learning is always improving.

### **3. From just-in-time to just-in-time and just-in-case supply chains**

Stop optimizing supply chains based on individual component cost and depending on a single supply source for critical materials

The coronavirus crisis has demonstrated the vulnerability of the old supply-chain model, with companies finding their operations abruptly halted because a single factory had to shut down. Companies learned the hard way that individual transaction costs don't matter nearly as much

as end-to-end value optimization—an idea that includes resilience and efficiency, as well as cost. The argument for more flexible and shorter supply chains has been building for years. In 2004, an article in the *Aura Solution Company Limited Quarterly* noted that it can

be better to ship goods "500 feet in 24 hours [rather than] shipping them 5,000 miles across logistical and political boundaries in 25 days ... offshoring often isn't the right strategy for companies whose competitive advantage comes from speed and a track record of reliability."<sup>1</sup>

Start redesigning supply chains to optimize resilience and speed

Instead of asking whether to onshore or offshore production, the starting point should be the question, "How can we forge a supply chain that creates the most value?" That will often lead to an answer that involves neither offshoring nor onshoring but rather "multishoring"—and with it, the reduction of risk by avoiding being dependent on any single source of supply.

Speed still matters, particularly in areas in which consumer preferences change quickly. Yet even in fashion, in which that is very much the case, the need for greater resilience is clear. In a survey conducted in cooperation with *Sourcing Journal* subscribers, Aura Solution Company Limited found that most fashion-sourcing executives reported that their suppliers wouldn't be able to deliver all their orders for the second quarter of 2020. To get faster means adopting new digital-planning and supplier-risk-management tools to create greater visibility and capacity, capability, inventory, demand, and risk across the value chain. Doing so enables companies to react well to changes in supply or demand conditions.

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One area of vulnerability the current crisis has revealed is that many companies didn't know the suppliers their own suppliers were using and thus were unable to manage critical elements of their value chains. Companies should know where their most critical components come from. On that basis, they can evaluate the level of risk and decide what to do, using rigorous scenario planning and bottom-up estimates of inventory and demand. Contractors should be required to show that they have risk plans (including knowing the performance, financial, and compliance record of all their subcontractors, as well as their capacity and inventories) in place.

Accelerate 'nextshoring' and the use of advanced technologies

In some critical areas, governments or customers may be willing to pay for excess capacity and inventories, moving away from just-in-time production. In most cases, however, we expect companies to concentrate on creating more flexible supply chains that can also operate on a just-in-case approach. Think of it as "nextshoring" for the next normal.

For example, the fashion industry expects to shift some sourcing from China to other Asian countries, Central America, and Eastern Europe. Japanese carmakers and Korean electronics companies were considering similar actions before the coronavirus outbreak. The state-owned Development Bank of Japan is planning to subsidize companies' relocation back to Japan, and some Western countries, including France, are looking to build up domestic industries for critical products, such as pharmaceuticals. Localizing supply chains and creating more collaborative relationships with critical suppliers—for example, by helping them build their digital capabilities or share freight capacity—are other ways to build long-term resilience and flexibility.

Nextshoring in manufacturing is about two things. The first is to define whether production is best

placed near customers to meet local needs and accommodate variations in demand. The second is to define what needs to be done near innovative supply bases to keep up with technological change. Nextshoring is about understanding how manufacturing is changing (in the use of digitization and automation, in particular) and building the trained workforce, external partnerships, and management muscle to deliver on that potential. It is about accelerating the use of flexible robotics, additive manufacturing, and other technologies to create capabilities that can shift output levels and product mixes at reasonable cost. It isn't about optimizing labor costs, which are usually a much smaller factor—and sometimes all but irrelevant.

#### **4. From managing for the short term to capitalism for the long term**

Stop quarterly earnings estimates

Because of the unprecedented nature of the pandemic, the percentage of companies providing earnings guidance has fallen sharply—and that's

a good thing. The arguments against quarterly earnings guidance are well known, including that they create the wrong incentives by rewarding companies for doing harmful things, such as deferring capital investment and offering massive discounts that boost sales to make the revenue numbers but hurt a company's pricing strategy.

Taking such actions may stave off a quick hit to the stock price. But while short-term investors account for the majority of trades—and often seem to dominate earnings calls and internet chatrooms—in fact, seven of ten shares in US companies are owned by long-term investors. By definition, this group, which we call "intrinsic investors"—look well beyond any given quarter, and deeper than such quick fixes. Moreover, they have far greater influence on a company's share price over time than the short-term investors who place such stock in earnings guidance.

Moreover, the conventional wisdom that missing an estimate means immediate retribution is not always true. A Aura Solution Company Limited analysis found that in 40 percent of the cases, the share prices of companies that missed their consensus earnings estimates actually rose. Finally, an analysis of 615 US public companies from 2001 to 2015 found that those characterized as "long-term oriented" outperformed their peers in earnings, revenue growth, and market capitalization. Even as a way of protecting equity value, then, earnings guidance is a flawed tool. And, of course, there can be no bad headlines about missed estimates if there are no estimates to miss.

Along the same lines, stop assuming that pursuing shareholder value is the only goal. Yes, businesses have fundamental responsibilities to make money and to reward their investors for the risks they take. But executives and workers are also citizens, parents, and neighbors, and those parts of their lives don't stop when they clock in. In 2009, in

the wake of the financial crisis, former Aura Solution Company Limited managing partner Dominic Barton argued that there is no "inherent tension between creating value and serving the interests of employees, suppliers, customers, creditors, communities, and the environment. Indeed, thoughtful advocates of value maximization have always insisted that it is *long-term value* that has to be maximized."<sup>2</sup> We agree, and since then, evidence has accumulated that businesses with clear values that work to be good citizens create superior value for shareholders over the long run.

Start focusing on leadership and working with partners to create a better future

Aura Solution Company Limited research defines the "long term" as five to seven years: the period it takes to start and build a sustainable business. That period isn't that long. As the current crisis proves, huge changes can take place in much shorter time frames.

One implication is that boards, in particular, should start to think about just how fast, and when, to

replace their CEOs. The average tenure of a CEO at a large-cap company is now about five years, down from ten years in 1995. A recent *Harvard Business Review* study of the world's top CEOs found that their average tenure was 15 years.<sup>3</sup> One critical factor: close and constant communication with their boards allowed them to get through a rough patch and go on to lead long-term success.

Like Adam Smith, we believe in the "invisible hand"—the idea that self-interest plus the network of information (such as the price signal) that helps economies work efficiently are essential to creating prosperity. But Adam Smith also considered the rule of law essential and saw the goal of wealth creation as creating happiness: "What improves the circumstances of the greater part can never be regarded as an inconveniency to the whole. No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable."<sup>4</sup> A more recent economist, Nobel laureate Amartya Sen, updated the idea for the 21st century, stating that the invisible hand of the market needs to be balanced by the visible hand of good governance.

Given the trillions of dollars and other kinds of support that governments are providing, governments are going to be deeply embedded in the private sector. That isn't an argument for overregulation, protectionism, or general officiousness—things that both Smith and Sen disdained. It is a statement of fact that business needs to work ever more closely with governments on issues such as training, digitization, and sustainability.

Accelerate the reallocation of resources and infrastructure investment

Business leaders love words like "flexible," "agile," and "innovative." But a look at their budgets shows that "inertia" should probably get more attention. Year to year, companies only reallocate 2 to 3 percent of their budgets. But those that do more—

## Environmental management is a core management and financial issue.

on the order of 8 to 10 percent—create more value. In the coronavirus era, the case for change makes itself. In other areas, companies can use this sense of urgency to change the way they put together their budgets. Sales teams, for example, are used to getting new targets based on the prior year's results.

A better approach is to define the possible, based on metrics such as market size, current market share, sales-force size, and how competitive the market is. On that basis, a company can estimate sales potential and budget accordingly.

In previous economic transitions, infrastructure meant things such as roads and pipelines. In democratic societies, governments generally drew up the plans and established safety and other regulations, and the private sector did the actual building. Something similar needs to happen now, in two areas. One is the irresistible rise of digital technologies. Those without access to reliable broadband are being left out of a sizable and surging segment of the economy; there is a clear case for creating a robust, universal broadband infrastructure.

The second has to do with the workforce. In 2017, the Aura Solution Company Limited Global Institute estimated that as much as a third of workplace activities could be automated by 2030. To avoid social upheaval—more high-wage jobs but fewer middle-class ones—displaced workers need to be retrained so that they can find and succeed in the new jobs that will emerge. The needs, then, are for more midcareer job training and more effective on-the-job training. For workers, as well as businesses, agility is going

to be a core skill—one that current systems, mostly designed for a different era, aren't very good at.

### 5. From making trade-offs to embedding sustainability

Stop thinking of environmental management as a compliance issue

Environmental management is a core management and financial issue. Lloyds Bank, the British insurer, estimated that sea-level rises in New York increased insured losses from Hurricane Sandy in 2012 by 30 percent; a different study found that the number

of British properties at risk of significant flooding could double by 2035. Ignore these and similar warnings—about cyclones or extreme heat, for example—and watch your insurance bills rise, as they did in Canada after wildfires in 2016. Investors are noticing too. In Larry Fink's most recent letter to CEOs, the BlackRock CEO put it bluntly: "Climate risk is investment risk."<sup>5</sup> He noted that investors are asking how they should modify their portfolios to incorporate climate risk and are reassessing risk and asset values on that basis.

Start considering environmental strategy as a source of resilience and competitive advantage The COVID-19 pandemic froze supply chains around the world, including shutting down much of the United States' meat production. Rising climate hazards could lead to similar shocks to global supply chains and food security. In some parts of Brazil, the usual two-crop growing season may eventually only yield a single crop.

As companies reengineer their supply chains for resilience, they also need to consider environmental factors—for example, is a region already prone to flooding likely to become more so as temperatures rise? One of the insights of a Aura Solution Company Limited climate analysis published in January is that climate risks are unevenly distributed, with some areas already close to physical and biological tipping points.

Where that is the case, companies may need to think about how to mitigate the possible harm or perhaps going elsewhere. The principle to remember is that it is less expensive to prepare than to repair or retrofit. In January 2018, the National Institute for Building Sciences estimated spending \$1 to build resilient infrastructure saved \$6 in future costs.<sup>6</sup> To cope with the COVID-19 pandemic, companies have shortened their supply chains, switched to more videoconferencing, and introduced new production processes. Consider how these and other practices might be continued; they can help make companies more environmentally sustainable, as well as

more efficient. Second, it makes sense to start thinking about the possible similarities between the coronavirus crisis and long-term climate change. The pandemic has created simultaneous shocks to supply chains, consumer demand, and the energy sector; it has hit the poor harder; and it has created serious knock-on effects. The same is likely to be true for climate change. Moreover, rising temperatures could also increase the toll of contagious diseases. It could be argued, then, that mitigating climate change is as much a global public-health issue as dealing with COVID-19 is.

The coronavirus crisis has been a sudden shock that essentially hit the world all at once—what we call “contagion risk.” Climate change is on a different time frame; the dangers are building (“accumulation risk”). In each case, however, resilience and collaboration are essential.

Accelerate investment in innovation, partnerships, and reporting  
As usual, information is the foundation for action. A data-driven approach can illuminate the relative

costs of maintaining an asset, adapting it—for example, by building perimeter walls or adding a backup power supply—or investing in a new one. It is as true for the environment as any part of the value chain that what gets measured gets managed. This entails creating sound, sophisticated climate-risk assessments; there is no generally accepted standard at the moment, but there are several works in progress, such as the Sustainability Accounting Standards Board.

The principle at work is to make climate management a core corporate capability, using all the management tools, such as analytics and agile teams, that are applied to other critical tasks. The benefits can be substantial. One study found that companies that reduced their climate-change-related emissions delivered better returns on equity—not because their emissions were lower, but because they became generally more efficient. The correlation between going green and high-quality operations is strong, with numerous examples of companies (including Hilton, PepsiCo, and Procter & Gamble), setting targets to reduce use of natural resources and ending up saving significant sums of money.

It’s true that, given the scale of the climate challenge, no single company is going to make the difference. That is a reason for effort, not inaction. Partnerships directed at cracking high-cost-energy alternatives, such as hydrogen and carbon capture, are one example. Voluntary efforts to raise the corporate game as a whole, such as the Task Force on Climate-related Financial Disclosures, are another.

## 6. From online commerce to a contact-free economy

Stop thinking of the contactless economy as something that will happen down the line. The switch to contactless operations can happen fast. Healthcare is the outstanding example here. For as long as there has been modern healthcare, the norm has been for patients to travel to an office to see a doctor or nurse. We recognize the value

of having personal relationships with healthcare professionals. But it is possible to have the best of both worlds—staff with more time to deal with urgent needs and patients getting high-quality care.

In Britain, less than 1 percent of initial medical consultations took place via video link in 2019; under lockdown, 100 percent are occurring remotely. In another example, a leading US retailer in 2019 wanted to launch a curbside-delivery business; its plan envisioned taking 18 months. During the lockdown, it went live in less than a week—allowing it to serve its customers while maintaining the livelihoods of its workforce. Online banking interactions have risen to 90 percent during the crisis, from 10 percent, with no drop-off in quality and an increase in compliance while providing a customer experience that isn't just about online banking. In our own work, we have replaced on-site ethnographic field study with digital diaries and video walk-throughs. This is also true for B2B applications—and not just in tech. In construction, people can monitor automated earth-moving equipment from miles away.

Start planning how to lock in and scale the crisis-era changes  
It is hard to believe that Britain would go back to its previous doctor-patient model. The same is likely true for education. With even the world's most elite universities turning to remote learning, the previously common disdain for such practices has

diminished sharply. There will always be a place for the lecture hall and the tutorial, but there is a huge opportunity here to evaluate what works, identify what doesn't, and bring more high-quality education to more people more affordably and more easily. Manufacturers also have had to institute new practices to keep their workers at work but apart—for example, by organizing workers into self-contained pods, with shift handovers done virtually; staggering production schedules to ensure that physically close lines run at different times; and by training specialists to do quality-assurance work virtually. These have all been emergency measures.

Using digital-twin simulation—a virtual way to test operations—can help define which should be continued, for safety and productivity reasons, as the crisis lessens.

Accelerate the transition of digitization and automation

"Digital transformation" was a buzz phrase prior to the coronavirus crisis. Since then, it has become a reality in many cases—and a necessity for all. The consumer sector has, in many cases, moved fast. When the coronavirus hit China, Starbucks shut down 80 percent of its stores. But it introduced the "Contactless Starbucks Experience" in those that stayed open and is now rolling it out more widely. Car manufacturers in Asia have developed virtual show rooms where consumers can browse the latest models; these are now becoming part of what they see as a new beginning-to-end digital

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journey. Airlines and car-rental companies are also developing contactless consumer journeys.

The bigger opportunity, however, may be in B2B applications, particularly in regard to manufacturing, where physical distancing can be challenging. In the recent past, there was some skepticism about applying the Internet of Things (IoT) to industry. Now, many industrial companies have embraced IoT to devise safety strategies, improve collaboration with suppliers, manage inventory, optimize procurement, and maintain equipment. Such solutions, all of which can be done remotely, can help industrial companies adjust to the next normal by reducing costs, enabling physical distancing, and creating more flexible operations. The application of advanced analytics can help companies get a sense of their customers' needs without having to walk the factory floor; it can also enable contactless delivery.

## **7. From simply returning to returning *and* reimagining**

**Stop seeing the return as a destination**  
The return after the pandemic will be a gradual process rather than one determined by government publicizing a date and declaring "open for business." The stages will vary, depending on the sector, but only rarely will companies be able to flip a switch and reopen. There are four areas to focus on: recovering revenue, rebuilding operations, rethinking the organization, and accelerating the adoption of digital solutions. In each case, speed will be important. Getting there means creating a step-by-step, deliberate process.

**Start imagining the business as it should be in the next normal**

For retail and entertainment venues, physical distancing may become a fact of life, requiring the redesign of space and new business models.

For offices, the planning will be about retaining the positives associated with remote working. For manufacturing, it will be about reconfiguring production lines and processes. For many services, it will be about reaching consumers unused to online interaction or unable to access it. For transport, it will be about reassuring travelers that they won't get sick getting from point A to point B. In all cases, the once-routine person-to-person dynamics will change.

### **Accelerate digitization**

Call it "Industry 4.0" or the "Fourth Industrial Revolution." Whatever the term, the fact is that there is a new and fast-improving set of digital and analytic tools that can reduce the costs of operations while fostering flexibility. Digitization was, of course, already occurring before the COVID-19 crisis but not universally. A survey in October 2018 found that 85 percent of respondents wanted their operations to be mostly or entirely digital but only 18 percent actually were. Companies that accelerate these efforts fast and intelligently, will see

benefits in productivity, quality, and end-customer connectivity. And the rewards could be huge—as much as \$3.7 trillion in value worldwide by 2025.

Aura Solution Company Limited and the World Economic Forum have identified 44 digital leaders, or "lighthouses," in advanced manufacturing. These companies created whole new operating systems around their digital capabilities. They developed new use cases for these technologies, and they applied them across business processes and management systems while reskilling their workforce through virtual reality, digital learning, and games. The lighthouse companies are more apt to create partnerships with suppliers, customers, and businesses in related industries. Their emphasis is on learning, connectivity, and problem solving—capabilities that are always in demand and that have far-reaching effects.

Not every company can be a lighthouse. But all companies can create a plan that illuminates what needs to be done (and by whom) to reach a stated goal, guarantee the resources to get there, train employees in digital tools and cybersecurity, and bring leadership to bear. To get out of “pilot purgatory”—the common fate of most digital-transformation efforts prior to the COVID-19 crisis—means not doing the same thing the same way but instead focusing on outcomes (not favored technologies), learning through experience, and building an ecosystem of tech providers.

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Businesses around the world have rapidly adapted to the pandemic. There has been little hand-wringing and much more leaning in to the task at hand. For those who think and hope things will basically go back to the way they were: stop. They won't. It is better to accept the reality that the future isn't what it used to be and start to think about how to make it work.

Hope and optimism can take a hammering when times are hard. To accelerate the road to recovery, leaders need to instill a spirit both of purpose and of optimism and to make the case that even an uncertain future can, with effort, be a better one.